



County of Los Angeles CHIEF EXECUTIVE OFFICE

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WILLIAM T FUJIOKA
Chief Executive Officer

June 16, 2011

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First District

MARK RIDLEY-THOMAS
Second District

ZEV YAROSLAVSKY
Third District

DON KNABE
Fourth District

MICHAEL D. ANTONOVICH
Fifth District

To: Mayor Michael D. Antonovich
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Don Knabe
Supervisor Zev Yaroslavsky

From: William T Fujioka
Chief Executive Officer

STATE BUDGET APPROVED BY LEGISLATURE AND REJECTED BY THE GOVERNOR

Today, Governor Brown returned the FY 2011-12 State Budget bills SB 69 and AB 98, approved by the Legislature on June 15, 2011, without his signature. In his message to the Legislature, the Governor stated that the budget he received does not provide a balanced solution, continues big budget deficits for years to come and adds billions of dollars of new debt. The Governor also noted that the budget contains legally questionable maneuvers, costly borrowing and unrealistic savings. He stated that the budget plan is not financeable and will not allow the State to meet its fiscal obligations.

The Governor called on the Republicans to allow Californians to vote on tax extensions for a balanced budget and reforms. He also asked the Republicans to join the Democrats in supporting job creations and ending tax breaks for out-of-state companies. Finally, the Governor cautioned that if Republicans continue to obstruct a vote on tax extensions, he would be forced to pursue deeper budget cuts to schools and public safety, "...a tragedy for which Republicans will bear full responsibility."

State Budget Plan Approved by the Legislature

On June 15, 2011, the Senate and Assembly approved the FY 2011-12 State Budget plan and related trailer bills on a majority vote. With this action, the Legislature met the June 15th Constitutional deadline to enact a State Budget and addressed the estimated

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\$9.6 billion deficit through a combination of tax increases, funding cuts, and various one-time solutions.

As a result of the lack of Republican support, the majority-vote budget plan did not include Governor Brown's proposal to seek voter approval to extend \$8.6 billion in tax increases for five years to fund his Realignment Proposal which would transfer \$5.6 billion in State fiscal and program responsibilities to counties and to provide \$3.0 billion in increased funding for K-12 education. In addition, the final budget package did not include an extension of the Vehicle License Fee rate increase to fund \$500.0 million in funding for local public safety programs which results in a loss of \$135.0 million to the County in FY 2011-12. Pension reform, regulatory changes or the State spending cap sought by the Republican leadership in exchange for their support on the Governor's tax extension were not included either.

Overall, the budget plan approved by the Legislature contains \$10.45 billion in solutions to address the remaining budget deficit consisting of: 1) additional expenditure reductions and payment deferrals (\$4.5 billion); 2) revenue solutions (\$2.75 billion); 3) Redevelopment changes (\$1.7 billion); and 4) other revenue assumptions including additional tax revenue and receipt of Federal Medicaid payments (\$1.5 billion). Major elements of the budget plan include:

Major Revenue Solutions

- **Sales and Use Tax.** Restores the 0.25 percent local sales tax in effect prior to Proposition 57 of 2004, the Economic Recovery Bond Act. This would provide additional property tax funding to schools and reduce the State General Fund portion of the Proposition 98 funding requirement by \$900.0 million. An unspecified portion of the anticipated State savings would be directed to fund public safety realignment.
- **Vehicle License Registration Fee.** Increases the base Vehicle Registration Fee by \$12.00 to fund Department of Motor Vehicles administrative functions for a State General Fund savings of \$300.0 million. The Assembly Floor report indicates that this action frees funding to help fund local public safety realignment. The Senate Floor report indicates that additional action will be needed to ensure that public safety realignment is funded appropriately, including addressing \$500.0 million in funding for local public safety programs.
- **On-line Sales Tax Enforcement.** Requires on-line retailers to collect State sales taxes for estimated revenue of \$200.0 million.

- **Fire Suppression Fee.** Establishes a State Responsibility Area Fee to cover some State costs for providing fire suppression services on privately-owned lands for estimated revenue of \$160.0 million.

Major Funding Reductions

- **Proposition 98.** Includes a \$3.0 billion reduction in Proposition 98 funding for K-12 education.
- **Proposition 10.** Assumes \$1.0 billion in State General Fund savings if the State prevails in pending litigation to redirect Proposition 10 (First 5) funding to Medi-Cal services for children.
- **University of California and California State University System.** Includes an additional \$300.0 million reduction.
- **Trial Courts.** Proposes a \$100.0 million reduction for court operations.

Phase-out of Redevelopment Agencies

The budget plan assumes \$1.7 billion in State General Fund savings from the phase-out of Redevelopment Agencies from the enactment of the following budget trailer bills:

- **ABX1 26**, as amended on June 14, 2011, would establish a process to phase out Redevelopment Agencies (RDAs) by suspending various RDAs activities and prohibiting agencies from incurring indebtedness upon adoption of this legislation. RDAs and community development commissions would be dissolved effective October 1, 2011. Successor agencies would be required to continue to make all scheduled payments for enforceable obligations.
- **ABX1 27**, as amended on June 15, 2011, would establish the Alternative Voluntary Redevelopment Program, whereby RDAs would be authorized to continue to exist and carry out redevelopment activities, as specified, upon the enactment of an ordinance by a city or county by November 1, 2011. A participating city or county would be required to make specified remittances to the county auditor-controller for deposit into a Special District Allocation Fund and into a county Educational Revenue Augmentation Fund.

According to the Assembly Floor report, the Alternative Voluntary Redevelopment Program would result in State General Fund savings of \$1.7 billion in FY 2011-12 and \$400.0 million in FY 2012-13, which would become the base for future annual payments. Cities and counties with an RDA that opt into the program would continue in existence and receive their full amount of tax increment revenue by agreeing to make

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annual payments to the county auditor-controller to be distributed primarily to school districts serving the community. State subsidies for redevelopment activity would be reduced; however, projects that meet State goals and priorities would be able to receive larger subsidies through reductions in the city and county payment.

We will keep you advised.

WTF:RA
MR:VE:LY:lm

c: All Department Heads
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